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1850 M Street, N.W., Suite 1100
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November 14, 1994

EX PARTE PRESENTATION

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: CC Docket No. 92-77 - Billed Party Preference

Dear Mr. Caton:

This letter concerns the market growth assumptions used by the Commission for purposes of its cost-benefit analysis in its Further Notice of Proposed Rulemaking in the above-referenced docket. In that analysis, the Commission assumed a 4.3% compounded annual growth rate ("CAGR") during the period 1991-97. In its comments, Sprint argued that the Commission's growth assumptions were too conservative and urged the Commission, instead, to use a 6% annual growth rate, which was consistent with increases in both toll revenues and interstate switched access minutes during the 1991-93 period. (See, Sprint's August 1, 1994 Comments at 15.)

Despite AT&T's assertions in this docket,¹ a presentation by Mr. John A. McMaster, AT&T's product manager for domestic consumer long distance services, to a conference sponsored by The PELORUS Group in Chicago, Illinois, on November 2, 1994, supports Sprint's contention that a 6% CAGR should be used. Using a broad definition of operator services, Mr. McMaster estimated an industry-wide CAGR of 6% during the 1990-96 period. Copies of charts from AT&T's presentation are attached; the last chart² shows projected growth for the broadly defined market.

¹ In its August 1 Comments, AT&T claimed (at 5-6) that the industry-wide growth rate for all operator services had averaged .63% and was negative during 1993-94, but AT&T failed to provide any evidence as to its own growth rate or disclose the basis for its industry estimates.

² The top shaded area on that chart, shown in dark gray, represents calling card traffic even though the legend shows a different marking for such traffic.

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Mr. William F. Caton
Page Two
November 14, 1994

It may be noted that this broad definition of operator services includes several categories of services that would not be directly affected by billed party preference and that may not have been included in the Commission's projection in the FNPRM. For example, coin-sent-paid calls (which continue to decline) are included in AT&T's definition of "traditional" operator services (see, the second page of the attachment). In addition, the broader operator services market is defined to include directory services, residential 800 products, and voice messaging services used in conjunction with operator services in instances where the call is unanswered or the called number is busy.

On the other hand, AT&T's market definition also includes two other substitutes for conventional away-from-home calling services -- prepaid card and cellular services -- that should be included in industry growth for purposes of the cost-benefit analysis. As Sprint pointed out in its September 14 Reply Comments (at 18-19), these services tend to cost much more than the rates of full service carriers for calling card calls, and their use for away-from-home calls may well be prompted by the public's fear of the exorbitant rates charged by some alternative OSPs for 0+ calls. Thus, if convenient, inexpensive calling card services were available on a 0+ basis (as would be the case under a system of billed party preference), many consumers who would otherwise use prepaid cards or wireless services for away-from-home calls may revert to calling cards after implementation of BPP, thereby producing the same cost savings benefit to the public that would result from diverting traffic away from high-priced alternative OSPs.


Examining the data in AT&T's presentation, it appears that if "Messages", "800" and Directory Assistance are excluded from AT&T's projections, the remaining operator services traffic would grow from approximately 20.75 billion minutes in 1991 (the base year for the Commission's analysis in the FNPRM) to approximately 28 billion minutes in 1996, for a CAGR of 6.18%. Even if cellular service and prepaid cards were also excluded from the market definition, traffic would grow from 20.75 billion minutes in 1991 to approximately 24

Mr. William F. Caton
Page Three
November 14, 1994

billion minutes in 1996, yielding a CAGR of 2.95%, which is well above the .63% CAGR employed by AT&T in its comments in this docket.

An original and one copy of this letter are being filed.

Respectfully submitted,



H. Richard Juhnke
General Attorney

Attachment

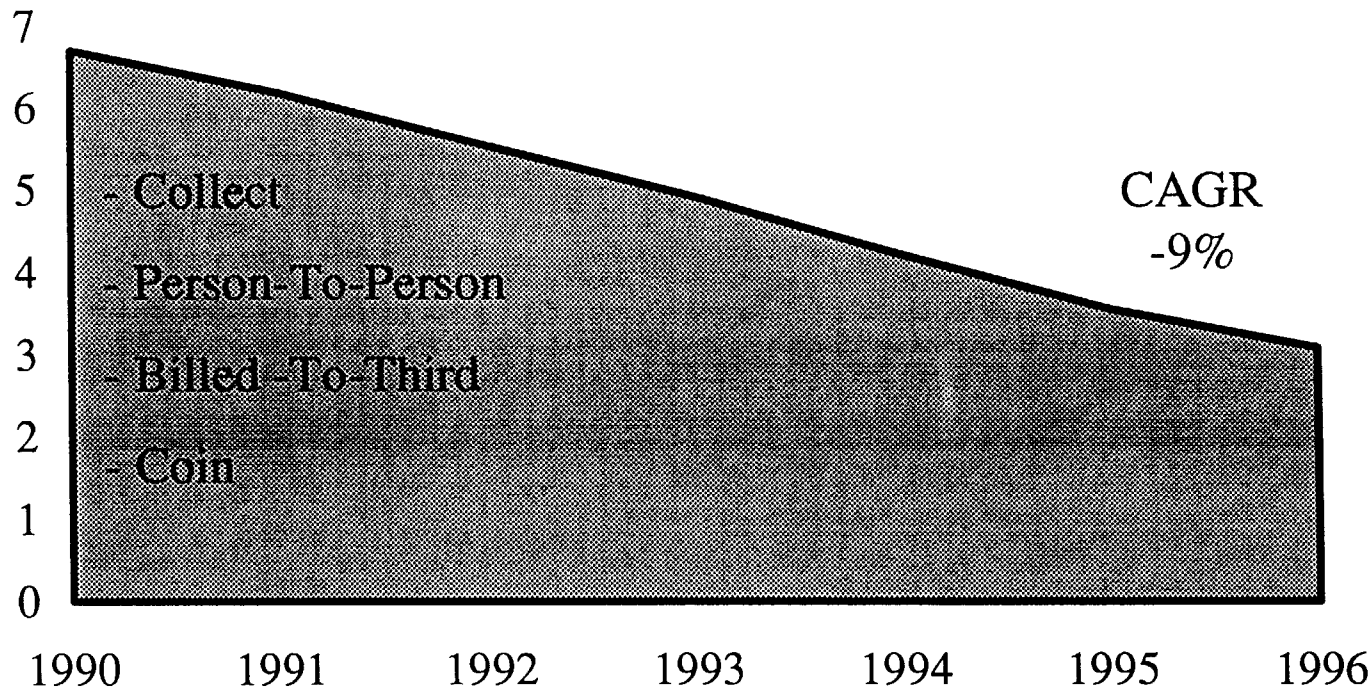
c: Gary Phillips
Mark Nadel

Brand Marketing Strategies

John A. McMaster
Director - DCCS Product Management
AT&T

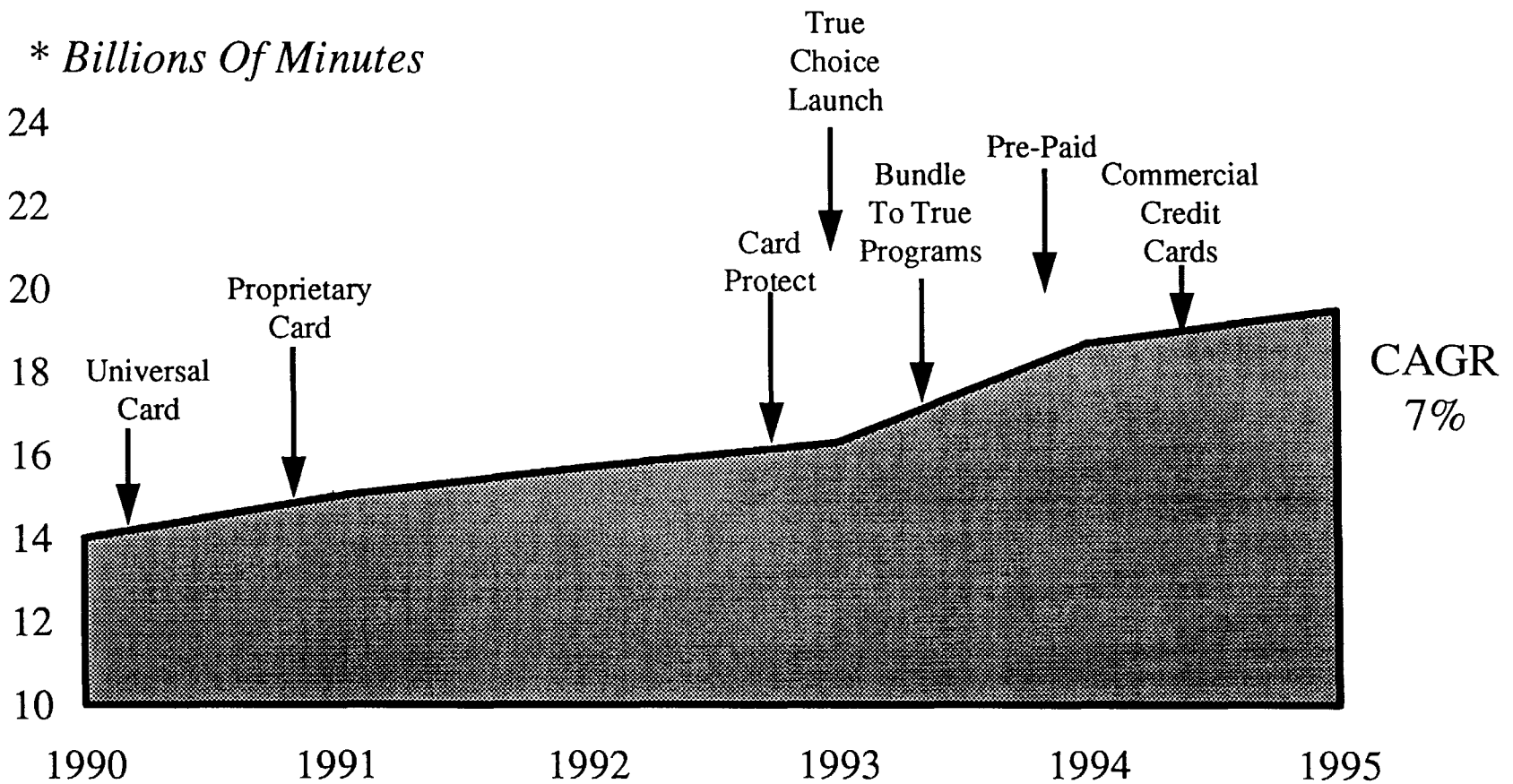
The “Traditional” Operator Services Industry Has Been Declining

** Billions Of Minutes*



** Industry Estimates*

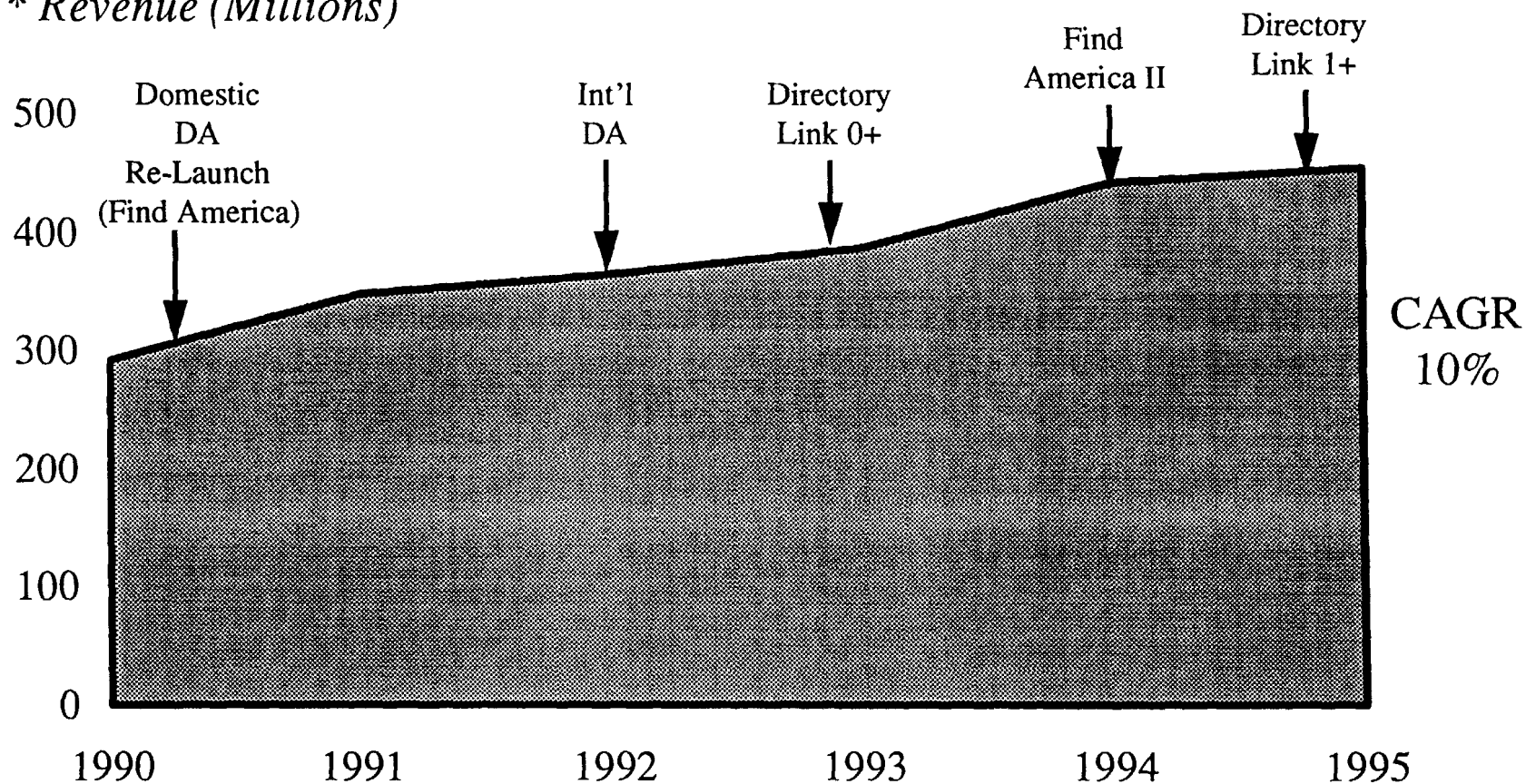
Calling Card Innovation



* Industry Estimates

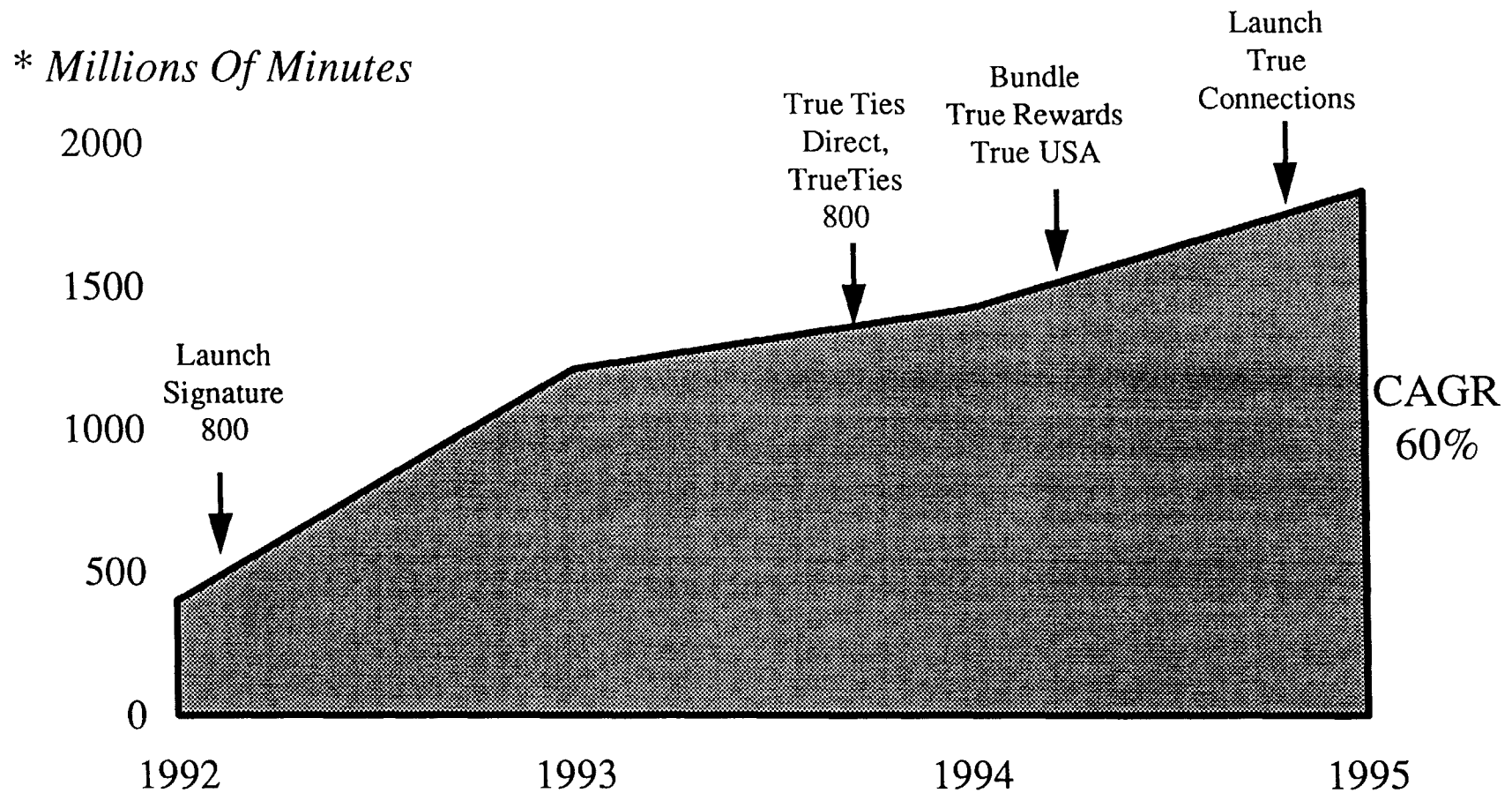
Directory Services Innovation

* Revenue (Millions)



* Industry Estimates

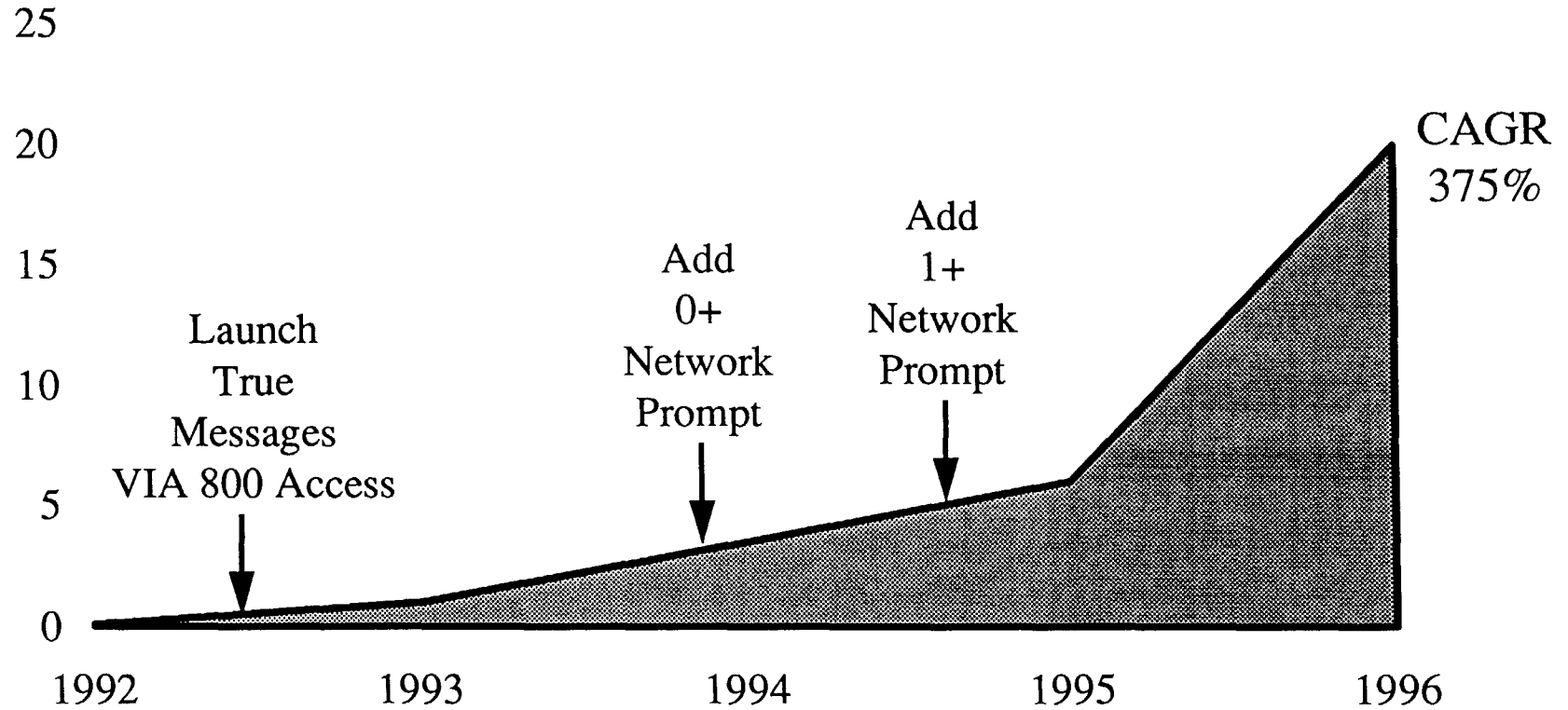
800 Innovation



* Industry Estimates

Messaging

** Millions Of Messages*



** Industry Estimates*

0+ Industry Evolution

